

In a letter to Federal Reserve Chairman Ben Bernanke, Rep. Peter Welch (D-Vt.) on Tuesday urged the Fed to immediately move forward with implementing debit card swipe fee reforms included in the Dodd-Frank Act (H.R. 4173), which was signed into law in July. The reforms, authored by Welch and Sen. Dick Durbin (D-Ill.), have come under intense pressure from big banks and credit card companies in recent weeks.

The letter to Chairman Bernanke comes as the Fed is working towards issuing a final rule to carry out the swipe fee reforms. The Fed's proposed rule, issued in December, would cap the fees charged to merchants every time a customer swipes a debit card at 12 cents. In recent weeks, several big banks have issued public warnings on the Fed's proposed rule and last week a group sent a 72 page letter to the Fed in which they called for the rule to be "fundamentally revised".

"The big banks and credit card companies overreached and they did so because they could," Welch said. "With no one watching, they were charging the highest fees in the world and running up billions of dollars in profits on the backs of small businesses. Now there's a cop on the beat and they're trying anything and everything to protect their scheme. If I had a sweetheart deal like that, I'd be fighting tooth and nail to hang on to it too."

Welch and Durbin's swipe fee reforms call on the Fed to set reasonable and proportional limits on the fees charged to merchants every time a customer uses a debit card. The statutory deadline for the Fed to issue the final rule is April 22, 2011.

The full text of Welch's letter is copied below. For a PDF [click here](#).

Ben Bernanke
Chairman
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Chairman:

I am writing in reference to the rules on debit interchange required under Section 1075 of the Wall Street Reform and Consumer Financial Protection Act of 2010 (the debit interchange amendment). As an author of many of the provisions contained in the amendment, I urge you to move forward with implementing the proposed debit interchange rule within the timeline contained in the statute.

The current method by which interchange fees are set is harmful to small businesses, consumers, and the economy. To date, fees have been fixed by the duopoly of debit card companies and their large member banks without any competitive market pressures to keep them in check. The debit interchange amendment narrowly targets the most important problems arising out of this market failure. If banks would simply compete on interchange, the restrictions in the debit interchange amendment would not apply to those fees.

I urge you to look to the check system as a good example of how competitive fee pricing benefits everyone. Checks have not been allowed to carry interchange fees for nearly a century and the system has served us all well. Banks, merchants and consumers still bear some costs associated with check transactions, but the system is more efficient because costs are set in a competitive marketplace. Debit cards are merely electronic checks and should be treated no differently. Interchange fees on debit transactions should be nil or no higher than the amount needed to cover the cost of debit card maintenance. Of the pricing options pending before the Federal Reserve Board I urge you to select the one that will result in the lowest possible fees – and continue to push them lower in the future.

Beyond the fees themselves, debit card companies and banks have also been engaged in anti-competitive practices in relation to network routing of debit transactions. The debit interchange amendment seeks to introduce competition between routing networks by prohibiting exclusive arrangements that limit choice. The only way that the statutory mandate and true competition can be achieved is to require that every debit transaction – whether PIN or signature – has at least two routing options. I urge you to adopt rules ensuring routing competition for all debit transactions without delay. More competition among networks provides across-the-board benefits.

American consumers currently pay inflated prices for virtually everything they buy because of interchange fees. Retail industries are low-margin and highly competitive businesses. Basic economic principles tell us that if merchant costs go down, prices will go down for their customers. Consumer groups like U.S. PIRG agree that if interchange fees are lower,

consumers will benefit. We can all agree that these groups are a more reliable gauge of consumer interests than large commercial banks. We also know that bankers' claims that interchange limits result in higher bank fees for consumers have been proven wrong time and again. The idea that banks would try to hold consumers hostage unless they are allowed to engage in price-fixing is inexcusable – and defies market realities.

I hasten to add that small banks and credit unions stand to gain, not lose, from interchange reform under the debit interchange amendment. The amendment exempts banks with assets under \$10 billion. Small banks can continue their current interchange pricing practices and more than one network (including the largest one) has confirmed it will have them do just that. Small banks currently receive a tiny portion of the overall profits from interchange, while a small number of the largest banks reap the lion's share. This reform benefits the smaller banks by leveling the playing field within the banking industry and more accurately reflecting the higher cost structures of smaller banks.

The proposed rule issued by the Federal Reserve Board represents significant progress toward reforming interchange, and I thank you for your efforts to date. These reforms are important to small businesses and consumers. Those groups will continue to pay until interchange reform is a reality. We urge you to move forward with implementation of the debit interchange amendment without delay.

Sincerely,

PETER WELCH
Member of Congress